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FISCAL IMPACT STATEMENT

LS 7331
BILL NUMBER: HB 1478

NOTE PREPARED: Feb 19, 2007
BILL AMENDED: Feb 15, 2007

SUBJECT: Personal property tax audits.

FIRST AUTHOR: Rep. Kuzman
FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: ___GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill specifies that a person contracted to discover omitted or undervalued property may review only the three assessment years ending before January 1of the year in which a taxpayer receives notice of the person's actions under the contract. It specifies the priority of payments from a special nonreverting fund created for the deposit of taxes resulting from additional assessments on undervalued or omitted property.

Effective Date: July 1, 2007.

Explanation of State Expenditures: (Revised) Under current law a board of county commissioners, a county assessor, or an elected township assessor may enter into a contract for the discovery of property that has been undervalued or omitted from assessment. This proposal directs the Department of Local Government Finance (DLGF) to adopt rules to certify persons who wish to obtain an audit contract.

Secondary Impact: (PTRC and Homestead Credits): The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits could vary. The amount of the increase or decrease would depend on how successful the audit program is in identifying undervalued personal property.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Audit Program:* Under current law, the township assessor or their contractor, is required to examine and verify the accuracy of each personal property return and, if appropriate, compare the return to the taxpayer's books. Township assessors must forward copies of all personal property tax returns with AV exceeding $150,000 to the county assessor who, in turn, forwards these returns to the DLGF.

A board of county commissioners, a county assessor, or an elected township assessor may enter into a contract for the discovery of property that has been undervalued or omitted from assessment. Contractors may not audit property if its assessment is under appeal or has not yet been finalized. The auditor may create a special nonreverting fund in which to deposit additional taxes from under-assessed valuations and from which the contractor is to be paid.

Under this proposal the contractor is limited to examining returns over the previous three assessment years, and they may also audit property for which a return has not been filed. The contractor is required to notify the taxpayer in writing that the taxpayer's returns will audited and the years over which the audit will cover.

Background: According to the DLGF, there is a contractor available who, as of September 2006, has completed audits for about 13 counties. Using Census data, this contractor estimated that there are potentially 68,000 personal property returns whose true tax value exceeds $50,000 (returns with AV $50,000 and over comprise about 93 percent of the total AV), and so far it has audited approximately 13 percent of these returns. Contract costs and fees were approximately $6.5 M, about 30 percent of the total revenue recovered. The contractor estimates the remaining statewide under-assessment at approximately $2.7 B. It is estimated that the annual fee for auditing these returns would be about $29 M. (These costs could be offset by increased revenue collections. See *Explanation of Local Revenues*.)

The contractor classifies and set the audit fees based on the AV in the return. The table below has the fee schedule for audits completed in Marion County in 2004.

Assessed True Tax Value	Audit Fee
$50,000 - $399,999	$700
$400,000 - $999,999	$1,400
$1,000,000 - $4,999,999	$2,200
$5,000,000 - $19,999,999	$6,000
Over $20,000,000	$10,000

Explanation of Local Revenues: (Revised) Under current law after contract costs have been paid any remaining funds will be distributed to the local taxing units. This proposal stipulates that after all contract fees have been paid, up to 20 percent of the remaining funds would be deposited in the county's reassessment fund; the remainder would then be distributed to the appropriate taxing units.

The amount of additional revenue counties may potentially gain from this program would depend on the amount of under-assessed value the audits discover. Under current law, property tax collections that exceed

100% of a taxing unit's certified levy must be deposited into the unit's levy excess fund. Money in this fund may only be used to pay tax refunds and to reduce future tax levies.

Background: After auditing 13 percent of eligible returns as of August 2006, the contractor discovered approximately $600 M in under-assessed value, which resulted in a net positive revenue for the counties of approximately $15 M after subtracting out contract fees. The contractor estimates an additional state-wide under-assessment of approximately $2.7 B. Total projected revenue is estimated at $96 M which, after deducting approximately 30 percent for contract costs, results in an additional $67 M for the counties.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County assessors; Township assessors; County auditors.

Information Sources: Local database; J. Barry Wood, Director, Assessment Division, DLGF, 317-232-3773.

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